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Listing of stock

Common stock, 4¾ % Preferred Stock, 1965 Series and 6.20% Subordinate Preferred Stock Series A are listed on the Montreal and Toronto Stock Exchanges. The 5% Preferred Stock, 1955 and 1956 Series are listed on the Canadian Stock Exchange.

Stock transfer offices

General Trust of Canada, 10 St. James Street, Montreal 126, is the Registrar and Transfer Agent for all classes of shares of the Company. The Royal Trust Company is the Co-Transfer Agent and Registrar for the 4¾ % Preferred Shares, 1965 Series, at its offices in Toronto and Winnipeg, and is the Co-Transfer Agent and Registrar for the 6.20% Subordinate Preferred Shares, Series A, and for the Company's common shares at its offices in Toronto, Winnipeg, Regina and Saint John, N.B.

Trustee for bonds

General Trust of Canada, 10 St. James Street, Montreal 126.

Bankers

Bank Canadian National
Bank of Montreal

Subsidiary

The Bonaventure and Gaspé Telephone Company, Limited, New Carlisle, Bonaventure County, Quebec.

Annual meeting

Your Directors appreciate the interest shown by shareholders who attend the Annual General Meetings and who participate in the discussion of the Company's affairs. This year the meeting will be held on April 24, in Rimouski, Quebec. All shareholders who find it possible to attend are urged to do so.

Si vous préférez un exemplaire du rapport en français, veuillez écrire à:
Québec-Téléphone,
Le secrétaire,
Siège social: 6, rue Saint-Jean,
Rimouski, Québec (418-723-2271)

Report in Brief

	1972	1971	1970	% variation	
				72/71	71/70
Financial <i>(Thousands of dollars)</i>					
Operating revenues	\$ 37,484	\$ 30,954	\$ 28,363	21.1	9.1
Operating expenses	24,001	19,277	17,029	24.5	13.2
Income taxes	4,385	3,723	3,718	17.8	0.1
Net income	4,531 ⁽¹⁾	3,649 ⁽¹⁾	3,199	24.2	14.1
Net income applicable to common shares	3,889 ⁽¹⁾	2,902 ⁽¹⁾	2,441	34.0	18.9
Salaries and benefits	14,264	11,722	10,239	21.7	14.5
Construction and other plant additions	16,728	14,731	12,961	13.6	13.7
Telephone plant, at cost	161,106	147,756	135,708	9.0	8.9
Shareholder items					
Earnings per common share	\$ 1.82 ⁽¹⁾	\$ 1.49 ⁽¹⁾	\$ 1.40	22.1	6.4
Declared dividends per common share	0.91½	0.81¼	0.72½	12.6	12.1
Other statistics					
Telephone gain for the year	13,671	10,526	8,465	29.9	24.3
Number of telephones ⁽²⁾	176,897	163,226	152,700	8.4	6.9
Toll messages	15,885,698	13,654,451	12,421,598	16.3	9.9
Average number of common shares	2,141,973	1,947,700	1,741,067	10.0	11.9
Number of preferred and common shareholders ⁽²⁾	2,675	2,847	2,981	(6.0)	(4.5)
Number of employees ⁽²⁾	1,758	1,648	1,604	6.7	2.7

⁽¹⁾ Excluding extraordinary item.

⁽²⁾ Year-end.



QUÉBEC-TELEPHONE

COMMUNIQUÉ

For information: Charles Pitts, 418-722-5850 (collect)

For immediate release

Financial Editor

Re: Annual Report 1972

	<u>Twelve months ended December 31, 1972</u>	<u>Twelve months ended December 31, 1971</u>
Net Income	\$ 4,530,918 *	\$ 3,649,067 *
Earnings per Common Share	\$ 1.82 *	\$ 1.49 *
Number of Telephones	176,897	163,226
Number of Employees	1,758	1,648
Total Plant Investment	\$ 161,105,514	\$ 147,755,963

* Excluding extraordinary item

Annual General Shareholders' Meeting: April 24, 1973

INCREASED PACE OF BUSINESS IN ALL SECTORS

Québec-Téléphone's 46th Annual Report, for the twelve months ended December 31, 1972, discloses operating revenues of \$37.5 million, an increase of 21.1% over the preceding year. The net income for 1972 (excluding the extraordinary item of \$346,811 or \$0.16 per common share) rose to \$4,530,918 (\$1.82 per common share) compared with \$3,649,067 (\$1.49 per common share) for the corresponding 1971 period.

The number of telephones in service at December 31, totalled 176,897, a record increase of 13,671. Toll messages reached 15.9 million in 1972; whereas 52% of all toll traffic was dialed directly in 1971, the number rose to 65% in 1972. The number of employees at year end totalled 1,758, compared with 1,648 at the same date in 1971.

The Company added \$16.7 million to plant facilities for expansion and improvement during 1972. Major improvements, apart from cable and equipment additions, included the installation of an electronic central office in Sept-Iles and the provision of microwave transmission facilities between Sept-Iles and Havre St-Pierre for the C.B.C.'s French Television Network. Among other new services introduced in 1972 are: mobile radio-telephones, improved private radio paging systems, and a point-to-point microwave hop between Baie-Comeau and certain logging camps to the north of this city for Quebec North Shore Paper Company.

The Annual Report also mentions that over the next few years progress in the field of telecommunication services will be maintained at a high level. The number of telephones in service at the end of 1976 should total about 228,000, and in the same year the number of toll messages should reach about 23 million.

President's Message

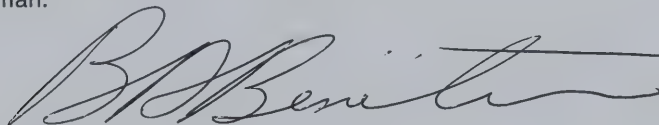
On November 9, 1972, Anik was launched. As citizens of the first country to possess its own geostationary domestic satellite and as financial participants in this project, we are justly proud of this accomplishment.

Despite the fact that the spectacular aspects of Anik's launch have captured popular imagination, there is reason to wonder whether modern technology is not gradually supplanting the traditional human values in our industry.

We don't think so. Society and its instruments, of which our company is a part, were created to meet human needs. The citizen sees in this technology a further means of fulfilling his legitimate aspirations, and through it the employee discovers new means of expanding his field of activity.

In the future there will be equally spectacular developments. We have just entered the era of electronic central offices, and already we can foresee the city of tomorrow blanketed by multiple networks offering services as complex as videophone and remote computer access.

It is essential to remember the ultimate purpose of these innovations. Far from changing the world into a giant machine, they are contributing to greater social intercourse and the well-being of man.

A handwritten signature in dark ink, appearing to read "B. A. Benintendi", with a long horizontal flourish extending to the right.

President

Directors' Report

46th Annual Report

The year 1972 at Québec-Téléphone was characterized by a general increase in every index of its activities: the acceleration in the pace of business, which began in the closing months of 1971, continued throughout the year in the Company's territory. Telephone gain and installations of all kinds were the highest in Company history, while toll messages increased by a record 16.3%. Over the past ten years, the investment in telephone plant has tripled, and now totals \$161.1 million. The average invested capital in the Company yielded a rate of return of 8.7% in 1972, compared with 8.2% in 1971.

Increased income and dividends

The net income available for common shares resulting from current operations amounted to \$3,888,796, compared with \$2,901,931 in 1971. Despite an additional increase in the number of common shares outstanding, following the conversion into common shares of 223,793 Convertible Redeemable Subordinate Preferred Shares, Series "A", during the second part of 1972, earnings per common share resulting from current operations rose to \$1.82, from \$1.49 the previous year. Adding the non-recurring extraordinary items to current operations, net income available for common shares totalled \$4,235,607 (\$1.98 per common share) in 1972, compared with \$3,153,087 (\$1.62 per common share) in 1971.

Regular quarterly dividends were paid to preferred and common shareholders during the year. The third-quarter dividend on common shares payable October 1, 1972, was increased to 24 cents per share from 21¼ cents, and the fourth-quarter dividend, payable January 1, 1973, was raised to 25 cents per share. Excluding extraordinary items for the last two years, the percentage of net income available for common shares paid in dividends was 50.6% in 1972, compared with 54.9% in 1971.

Increased revenues and expenses

Operating revenues rose to \$37.5 million, an increase of 21.1% over the preceding year. Toll service revenues alone increased by 26.5%, totalling \$23.5 million. This growth stems from a greater number of toll messages and from the effects of a new contract with Bell Canada, under which the Company now retains a more equitable proportion of revenues from services jointly operated by the two companies. The 11.9% increase in local service revenues was due to an unprecedented growth in the number of telephones in service (13,671 in 1972 and 10,526 in 1971). Revenues from data transmission and data processing services offered to the public also increased substantially.

On the whole, operating expenses, depreciation, income and other taxes increased by 23.4%, totalling \$28.4 million. Operating expenses alone were 30.5% higher as a result of increases in salaries, the cost of materials, and the greater costs involved in servicing larger plant facilities. It is also the result of a charge of \$646,000 to operating expenses to cover the current deficit in the employee pension fund for the period ended December 31, 1971, and of another charge of \$379,000 for sick-leave days accumulated to date for non-management personnel. This latter amount will be paid in cash

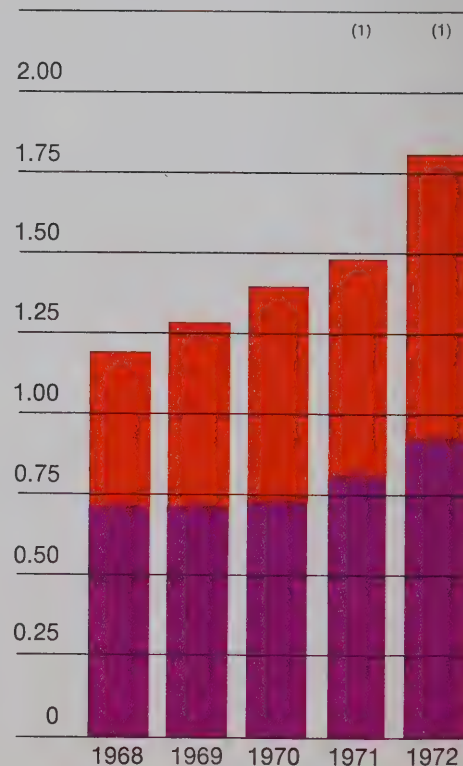
according to the conditions selected by each employee. If the amounts booked in 1972 for the current deficit and sick-leave accumulated days were excluded, it would bring the increase in operating expenses back to 21.8%.

Telephone plant depreciation totalled \$7.4 million, an increase of 13.5% over the preceding year. This is partly due to higher investment in telephone plant and partly to the revised depreciation rates for certain classes of telephone plant established annually by means of engineering studies. The average de-

Earnings per common share

In dollars

■ Declared dividends
■ Reinvested net income
(1) Excluding extraordinary item



preciation rate for telephone plant was 5.15% for the year ended December 31, 1972 (4.92% in 1971).

In 1972, the Company benefited from the temporary 7% reduction in federal corporate income tax; this represents approximately 15 cents per common share (the effect in 1971 was 7 cents). The termination of this reduction, on December 31, 1972, will be partially offset by the 1% annual decrease in the basic federal income tax rate (50% in 1972, 49% in 1973, reaching 46% in 1976).

Concerning municipal and school taxation, the Real Estate Assessment Act now requires that all telecommunication companies pay, starting with the year 1972, a tax based on net income before income taxes for the financial term of the preceding year, in lieu of property taxes on its telephone plant. In order to avoid too great an upset in the budgets of telecommunication companies, the Act provides for a transitory period of a maximum of five years before the tax reaches the uniform level of 10%. Despite this attenuation, the Company will pay much more according to the new system. It is forecast that the taxes on telephone plant, as per the Real Estate Assessment Act, will amount to about \$3.0 million for the next four years as a whole, compared with \$0.6 million had the tax laws remained unchanged.

As a result of the increase in internal sources of financing (re-invested income, depreciation, deferred income taxes and miscellaneous income) and the stabilization at a reasonable level of interest rates, financial charges rose by only 4.5%, totalling \$4.9 million.

Contract with Bell Canada

As mentioned in last year's Annual Report, Québec-Téléphone and Bell Canada signed a new connecting contract on February 2, 1972, providing, among other things, new methods for the division of revenues derived from joint telecommunication services. This contract was approved on June 30, 1972 by the Public Service Board of Québec for the Company, and on September 11, 1972 by the Canadian Transport Commission for Bell Canada.

Final approval of the new connecting contract also made effective other agreements reached with Bell Canada on February 2, 1972 and providing, among other things, for various non-recurring readjustments of the division of revenues from certain joint services. These readjustments resulted in extraordinary non-recurring revenues of \$673,878 for the Company in 1972, or an extraordinary profit of \$346,811, after the deduction of income taxes. The extraordinary item of \$251,156 in 1971 resulted from a profit realized on the repayment of loans payable in U.S. funds.

The 200,000 mark

Expansion of the Company continued throughout 1972. From the 100,000 telephones in service in 1965, 150,000 in 1970, the Company exceeded the 175,000 mark in November 1972, and it should reach 200,000 telephones within about two years. A record number of 13,671 telephones was added in 1972, the number of telephones in service totalling 176,897 at December 31.

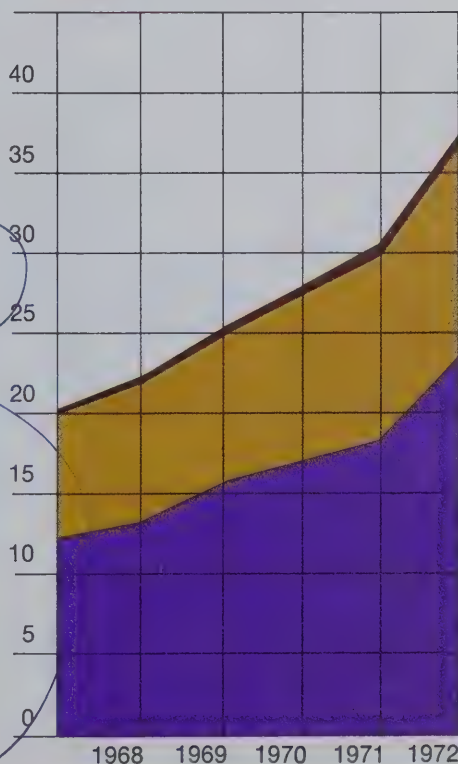
At the same date, 97.9% (73.1% in 1966) of our telephones were dial operated.

Direct Distance Dialing, which was non-existent before 1967, is now available to 94.7% of our subscribers. The number of toll messages dialed directly by the subscriber during 1972 amounted to 65% of the traffic, compared with 52% in 1971 and 15% in 1968.

Automatic Number Identification, introduced in 1971, is now available to 21% of our subscribers. In accordance with the Company's policy of improving rural services, 4 additional localities were provided with private or two-party

Operating revenues

Millions of dollars



service; the average number of subscribers per rural lines now stands at 4.1 (7.3 in 1965).

Special services . . .

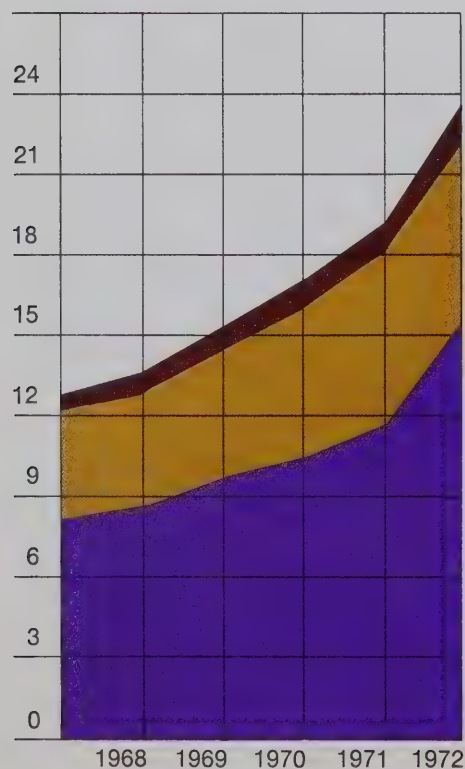
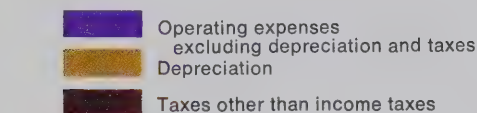
Telecommunications in the future

In addition to offering services related to basic telephone business, for several years the Company has offered its customers many special services, such as:

- 1) TELEX, TWX and leased carrying facilities for voice transmission, teletype, data, radio, television broadcasting and closed-circuit

Operating expenses

Millions of dollars



television transmission.

- 2) Background music in shopping centres and other locations (100 customers in 1972).
- 3) Computer processing of payrolls, inventories, financial statements, and other (18 customers in 1972, 9 in 1971).
- 4) Data-transmission facilities linking terminals to computers over the standard telephone network.

The Company forecasts rapid growth in services related to data transmission over the next few years.

Several new services were introduced in 1972, such as:

- 1) A public mobile radio-telephone system which provides origination and reception of calls from automobiles, ships or from locations that cannot be reached by the regular telephone network. This service is now offered to customers in the Montmagny and Beauce area and will gradually be introduced in other parts of our territory.
- 2) An improved radio-paging system which transmits a signal only or both signal and voice.

In 1972, Québec-Téléphone and Quebec North Shore Paper Company signed a contract which calls for the establishment of a microwave link between Baie-Comeau and its logging camps situated up to 75 miles north of this city. The agreement between the two companies provides for the installation of public telephones in the camps and private lines connected with the Baie-Comeau exchange, as well as the transmission of television programs by means of our microwave radio sites. This new service, a first for the Company's territory, will no doubt

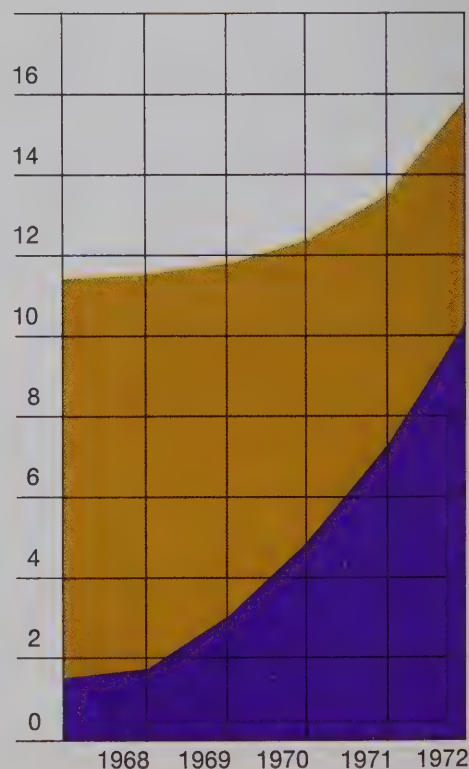
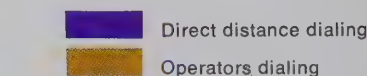
produce further interesting developments.

Provincial parks now use private mobile radio systems which allow park personnel to work in remote areas and remain in constant communication. Parks equipped in this way include those of Rimouski, Matane, Gaspé, Port-neuf and Sept-Iles.

The market for data and voice transmission is altogether new, changing, dynamic, and promising. In this very competitive field, the Company is conti-

Toll messages

Millions



nuing its efforts to offer quality services and the maintenance which it alone can provide in so vast a territory. Sales efforts will be maintained during 1973 to promote data transmission and mobile radio-telephone service.

Cost control and training

With the authorization of the Public Service Board of Quebec and in accordance with its policy aimed at containing certain operating costs which are not related to basic services, the Company instituted, as of March 1972, a 25¢ charge on person-to-person calls not completed within 24 hours, on any request to Directory Assistance for information already appearing in the directory, on any request for immediate quotation of "time and charges" on long-distance calls. The results, after ten months, indicate that the objectives have been achieved: requests for Directory Assistance services, for instance, have decreased by 60%.

Over 29,000 hours of basic and vocational training were given during the year, particularly to maintenance and customer-services personnel. In addition, several closed-circuit television programs were produced to assist in employee information and training; the results have been favorable, and the

production and use of closed-circuit television will continue, most notably for the training of personnel at our Data Centre.

Plant expenditures 1973 - 1976: \$85 million

Although some \$74 million was invested between 1967 and 1971 in telephone plant for modernization and expansion, the Company added another \$16.7 million to its facilities in 1972, bringing total plant investment to \$161.1 million, at year end. In addition to investments in new equipment, cable and telephone sets, several improvements and additions were made to the telephone plant, including:

- 1) Introduction of Automatic Number Identification in Mont-Joli and Rimouski.
- 2) Installation of microwave television transmission facilities from Sept-Iles to Havre Saint-Pierre for the French network of Radio-Canada.
- 3) Installation in Sept-Iles of the Province's second electronic central office exchange. This ultra-modern equipment, which went into operation on February 4, 1973, provides its users with Automatic Number Identification and Push-Button Calling. It has a capacity of over 20,000 lines and will meet the requirements brought about by the rapid growth of that service area.

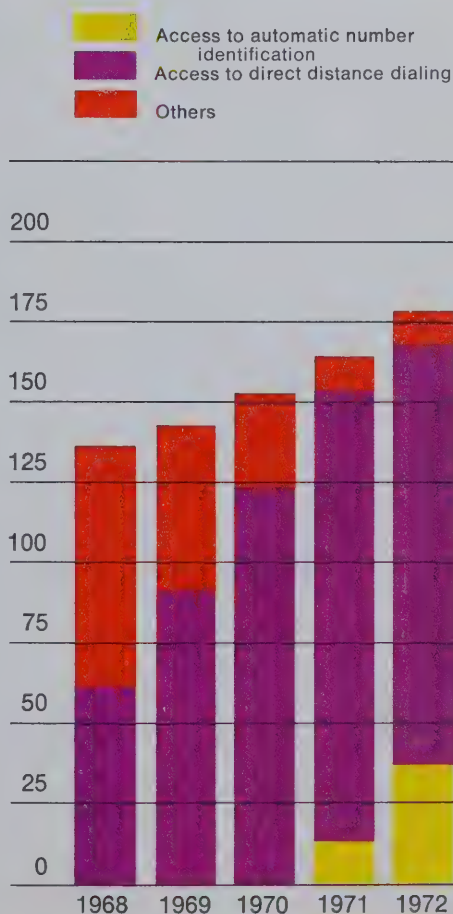
The construction budget for 1973 provides for investments of over \$20 million. Plant additions will require \$13.5 million for new equipment, cable and telephone sets to meet the needs

of the rising number of subscribers. Modernization will require investments of about \$2 million, principally for the automation of the Havre Saint-Pierre exchange, the installation of electronic switching equipment at St-Augustin, Portneuf and Pont-Rouge, and the widening of toll-free service areas in 5 additional exchanges.

This amount is included in the overall budget of \$85 million forecast for the next four years for modernization and expansion of Québec-Téléphone's network. Toll traffic is expected to in-

Number of telephones

Thousands



crease at an average rate of 9.5 %, reaching about 23 million calls annually by 1976; the number of telephones in service at the end of this period should total approximately 228,000. In addition, a wide range of new services will be offered to the public in order to meet consumer demands with the most modern equipment available.

In March 1972, the Company subscribed for 10,000 shares of Telesat Canada, owner of ANIK. It now owns 60,000 common shares of this satellite communications company at a cost of \$600,000. The first of a series of two satellites, ANIK I was launched in mid-November, introducing a new era in telecommunications technology.

External financing 1973 - 1976: \$30 million

On March 15, 1972, the Company sold \$8.5 million 8½ % First Mortgage Bonds. The net proceeds of this issue, the highest ever made by Québec-Téléphone in one series, amounted to \$8.3 million and was applied to the reduction of bank loans, then totalling \$11 million. On April 1, taking advantage of increased internal resources, the Company reduced its medium-term loan from Anglo-Canadian Telephone Company from \$10 to \$8 million.

A letter addressed July 17, 1972, to the holders of the 6.20% Cumulative Redeemable Convertible Subordinate Preferred Shares, Series "A" drawing to their attention certain conditions pertaining to the right of converting into common shares and mentioning the increased quarterly dividend for the common shares resulted in a total of 225,238 shares (or 78%) of the said series "A" shares being converted into common shares, as of this date.

Over the next four years, the Company will be called upon to invest some \$85 million in its telephone plant for modernization and expansion; about \$30 million in new funds will be required (\$28 million for construction expenditures and \$2 million to redeem matured bonds and for sinking fund purposes); the balance (about 65%) will come from internal sources.

1,758 serving the public

In order to stimulate employee participation in Company progress, the Board of Directors has instituted a plan whereby employees may purchase common shares of the Company, and for which a maximum of 60,000 common shares has been set aside. By the end of the subscription period on May 31, 1972, 299 employees had contracted to buy 29,208 shares; payment is made by means of salary deductions from July 1, 1972 to May 31, 1974.

On November 24, 1972, Québec-Téléphone and its 480 plant workers, represented by local 2200 of the International Brotherhood of Electrical Workers, renewed their collective work agreement. This two-year contract provides for salary increases and other benefits. Two collective agreements dealing with operators and technicians and office employees will expire in 1973.

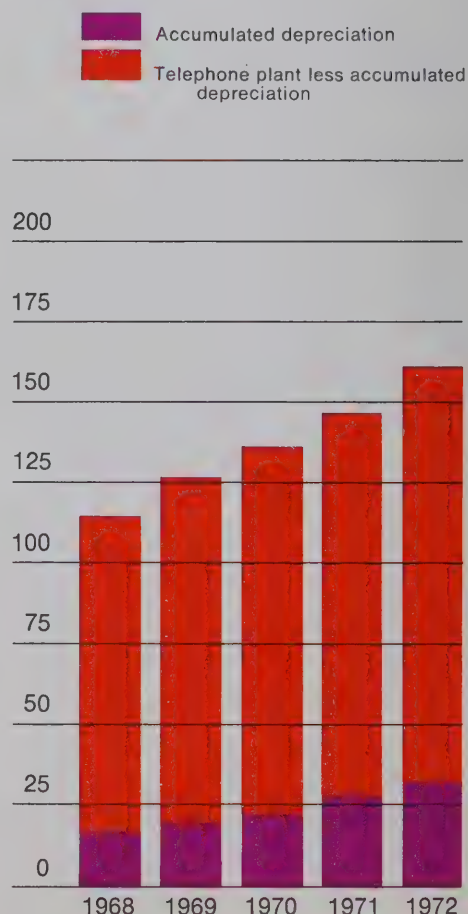
As of December 31, 1972, the Company had 1,758 people serving its clientèle in the fields of operations, maintenance, and plant expansion. The Company is

very much aware that its most precious asset is its human capital. For this reason, training, employee welfare and participation are a constant preoccupation of the Directors. It is their view that Company growth is directly related to the drive and talent of the employee body.

In the field of benefits, it should be noted that Québec-Téléphone, with the view to providing better protection for the salaries of sick or disabled employees, implemented on January 1, 1973, a new salary insurance plan for

Telephone plant

Millions of dollars



plant workers. This new plan, which has applied to management personnel since June 30, 1972, provides full benefits, even until retirement age, to any employee who is absent for reasons of illness or disability.

Administrative changes

Following its policy of personnel development and as a means of assuring experienced back-up, administrative changes were announced in 1972, effective January 1, 1973. Henri Dionne, until then Vice President — Personnel, was named Vice President — Public Relations. Jean-Marc Tremblay, formerly Vice President and Counsel and Vice President — Public Relations, was named Vice President and Counsel and Vice President — Personnel.

Communications and natural resources

Communication is now the principal means of development in our society and even more so in such an immense territory as the one served by the Company. The vastness, the varied activities of its inhabitants, the varied and abundant natural resources will lead to a rapid expansion of telecommunication services in the future. The Company will continue to be in the vanguard of this progress.

For the Board of Directors,

B. A. Bénéteau
Chairman

February 5, 1973



Consolidated Statement of Income
for the years ended December 31, 1972 and 1971

	1972	1971
Operating revenues:		
Local service	\$13,400,210	\$11,972,557
Toll service	23,525,402	18,593,193
Miscellaneous	723,536	528,019
Doubtful accounts	(164,864)	(139,947)
	<u>37,484,284</u>	<u>30,953,822</u>
Operating expenses:		
Maintenance	5,273,697	4,351,913
Depreciation (Note 2)	7,422,041	6,540,753
Traffic (Note 7)	2,565,589	2,529,800
Commercial (Note 7)	1,825,930	1,392,309
General office salaries and other	5,579,293	3,405,381
General taxes	1,334,328	1,057,254
	<u>24,000,878</u>	<u>19,277,410</u>
Operating income	13,483,406	11,676,412
Miscellaneous income — net (Note 8)	320,237	375,532
Income before interest charges	13,803,643	12,051,944
Interest charges:		
Interest on long-term debt	3,650,528	2,869,665
Interest on short-term notes	1,129,829	1,713,200
Amortization of discount and expense on long-term debt	107,831	96,646
	<u>4,888,188</u>	<u>4,679,511</u>
Income before income taxes	8,915,455	7,372,433
Income taxes:		
Current	2,921,535	1,772,842
Deferred (Note 10)	1,463,002	1,950,524
	<u>4,384,537</u>	<u>3,723,366</u>
Net income before extraordinary item	4,530,918	3,649,067
Extraordinary item (Note 11)	346,811	251,156
Net income	\$ 4,877,729	\$ 3,900,223
Earnings per common share (Note 12):		
Before extraordinary item	\$ 1.82	\$ 1.49
Extraordinary item (Note 11)	0.16	0.13
	<u>\$ 1.98</u>	<u>\$ 1.62</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

December 31, 1972 and 1971

ASSETS

Telephone plant, at cost

Accumulated depreciation (Note 2)

1972

\$161,105,514

30,786,353

130,319,161

1971

\$147,755,963

26,531,328

121,224,635

Current assets:

Cash

196,996

147,526

Receivables (including unbilled revenues)

4,499,614

3,480,416

Material and supplies, at average cost

2,833,186

2,511,520

Prepaid expenses and other

220,720

133,862

7,750,516

6,273,324

Other assets:

Investment in Telesat Canada, at cost

600,000

500,000

Unamortized discount and expense on long-term debt

959,546

845,394

Deferred charges (Note 6)

168,514

165,923

1,728,060

1,511,317

\$139,797,737

\$129,009,276

Signed on behalf of the Board:

Raymond Sirois, Director

Julien Thuot, Director

CAPITALIZATION AND LIABILITIES
Capitalization (per accompanying statement):

	1972	1971
Common share equity	\$ 31,292,398	\$ 25,666,918
Subordinate Preferred shares	974,100	4,330,995
Preferred shares	9,890,580	9,917,580
Long-term debt	52,891,180	44,719,203
Total capitalization	95,048,258	84,634,696

Short-term notes (per accompanying statement):

Total capitalization and short-term notes	16,100,000	21,800,000
	111,148,258	106,434,696

Current liabilities (excluding short-term notes):

Accounts payable —		
Trade	1,237,291	1,255,552
Affiliates	680,897	500,679
Advance billings and customer deposits	607,972	494,891
Dividends	697,847	618,081
Accrued liabilities —		
Income and other taxes	2,152,840	79,772
Interest and other accruals	3,473,681	1,481,949
Current sinking fund payments	148,374	176,000
	8,998,902	4,606,924

Deferred income taxes (Note 10)

	19,650,577	17,967,656
	\$139,797,737	\$129,009,276

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Retained Earnings

for the years ended December 31, 1972 and 1971

	1972	1971
Balance, at beginning of year	\$11,394,392	\$ 9,920,813
Add:		
Net income	<u>4,877,729</u>	<u>3,900,223</u>
	<u>16,272,121</u>	<u>13,821,036</u>
Deduct:		
Dividends —		
Preferred shares	475,219	478,239
Subordinate preferred shares	166,903	268,897
Common shares	1,967,050	1,593,219
Commission and expenses on sale of common shares	<u>—</u>	<u>86,289</u>
	<u>2,609,172</u>	<u>2,426,644</u>
 Balance, at end of year	 <u>\$13,662,949</u>	 <u>\$11,394,392</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1972 and 1971

	1972	1971
Source of funds:		
From operations —		
Net income	\$ 4,877,729	\$ 3,900,223
Add expenses not requiring cash outlay —		
Depreciation (Note 2)	7,422,041	6,540,753
Deferred income taxes (Note 10)	1,463,002	1,950,524
Other	306,879	189,485
Funds available from operations	14,069,651	12,580,985
Issue and sale of First Mortgage		
Redeemable Sinking Fund Bonds (net)	8,278,017	7,255,955
Issue and sale of common shares (net)	28	3,406,872
Income tax refund applicable to prior		
years credited to deferred income taxes	219,919	381,405
Net changes in current assets and current liabilities	2,914,786	(487,721)
	11,412,750	10,556,511
	\$25,482,401	\$23,137,496
Use of funds:		
Dividends on preferred, subordinate		
preferred and common shares	\$ 2,609,172	\$ 2,340,355
Redemption of long-term debt	318,149	1,151,979
Redemption of preferred shares	27,000	114,260
Decrease in short-term notes	5,700,000	4,300,000
Investment, Telesat Canada	100,000	500,000
	8,754,321	8,406,594
Construction and other plant additions	16,728,080	14,730,902
	\$25,482,401	\$23,137,496

The accompanying notes are an integral part
of these consolidated financial statements.

Consolidated Statement of Capitalization

December 31, 1972 and 1971

	1972	1972		1971
	Shares outstanding			
Capitalization:				
Common share equity (Note 3)				
Common shares				
Authorized —				
5,000,000 Common shares				
without nominal or par value	2,256,495	\$17,629,449		\$14,272,526
Retained earnings (per accompanying statement)		13,662,949		11,394,392
		<u>31,292,398</u>	33%	<u>25,666,918</u> 30%
Subordinate Preferred shares (Note 3)				
Authorized —				
750,000 Subordinate Preferred shares				
of the par value of \$15 each				
6.20% Cumulative Redeemable Convertible				
Subordinate Preferred shares Series A	64,940	974,100	1%	4,330,995 5%
Preferred shares (Note 3)				
Authorized —				
919,161 Preferred shares of the				
par value of \$20 each				
5% Cumulative Sinking Fund				
Redeemable Preferred shares:				
1955 Series	58,288			
1956 Series	36,241			
	<u>94,529</u>	1,890,580		1,917,580
4¾ % Cumulative Redeemable				
Preferred shares, 1965 Series	400,000	8,000,000		8,000,000
		<u>\$ 9,890,580</u>	10%	<u>\$ 9,917,580</u> 12%

	Issued (thousands of dollars)	Outstanding 1972	Outstanding 1971	
Long-term debt (Note 3)				
First Mortgage Redeemable				
Sinking Fund Bonds —				
5⅞ % Series F, due December 1, 1984	\$3,000 (U.S.)	\$ 2,854,054	\$ 2,902,703	
5½ % Series G, due October 15, 1982	5,000	4,022,000	4,161,000	
5½ % Series H, due June 1, 1987	6,000	5,085,000	5,170,000	
6% Series I, due October 15, 1990	5,000	5,000,000	5,000,000	
7% Series J, due January 2, 1989	5,000	5,000,000	5,000,000	
9⅛ % Series L, due April 15, 1991	7,500	7,500,000	7,500,000	
8¾ % Series M, due May 15, 1992	7,500	7,500,000	7,500,000	
8½ % Series N, due March 15, 1993	8,500	8,500,000	—	
		<u>45,461,054</u>	<u>37,233,703</u>	
General Mortgage Sinking Fund Bonds —				
5% Series B, due October 1, 1976	1,000	799,500	804,500	
6% Series C, due November 1, 1977	3,000	2,526,000	2,547,000	
5¾ % Series D, due April 1, 1983	5,000	4,253,000	4,310,000	
		<u>7,578,500</u>	<u>7,661,500</u>	
Less:				
Current sinking fund payments		148,374	176,000	
		<u>52,891,180</u>	<u>44,719,203</u>	53%
Total capitalization		<u>95,048,258</u>	<u>84,634,696</u>	<u>100%</u>
Short-term notes (Note 4):				
Subordinate note, 7½ %, due April 4, 1974 (June 1, 1973 in 1971), payable to Anglo-Canadian Telephone Company		8,000,000	10,000,000	
Demand notes payable to banks		8,100,000	11,800,000	
Total short-term notes		<u>16,100,000</u>	<u>21,800,000</u>	
Total capitalization and short-term notes		<u>\$111,148,258</u>	<u>\$106,434,696</u>	

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

for the years ended December 31, 1972 and 1971

1. Principles of consolidation

The consolidated balance sheet and the consolidated statement of capitalization and the related consolidated statements of income, retained earnings and changes in financial position include the assets, capitalization and liabilities and the results of operations and changes in financial position of the wholly-owned subsidiary, The Bonaventure and Gaspé Telephone Company, Limited.

On December 28, 1971, the Company purchased the telephone plant and certain other assets from its subsidiary. This transaction was approved by the Public Service Board of Quebec subject to ratification by the Canadian Transport Commission which has been unable to review the case to this date.

2. Depreciation of telephone plant

The Company follows the policy of providing for depreciation under the straight-line method by the application of rates based on the estimated service lives and net salvage value of the various classes of depreciable property to the gross book values of such classes of property.

Depreciation rates are determined by a continuing program of engineering studies for each class of telephone plant in service and such rates are applied monthly to each class to arrive at depreciation expense. This procedure resulted in a composite rate of 5.15% for 1972 and 4.92% for 1971.

3. Capitalization

a) Common share equity —

During the year ended December 31, 1972, 223,793 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A were converted into 223,793 Common shares. 64,940 Common shares are reserved for conversion of the 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares

Series A at the option of the holders thereof.

During the same year, 60,000 common shares were reserved for the Employee Purchase Plan, from which 2 were issued.

b) Preferred shares —

During the year ended December 31, 1972, 1,350 5% Cumulative Sinking Fund Redeemable Preferred shares were redeemed (5,713 in 1971); in order to meet the sinking fund requirements for the 1955 and 1956 series, amounting to \$15,000 a year for each of the series, payments for the next five years will be as follows: \$9,874 in 1973, \$16,784 in 1974, \$30,000 in 1975, 1976 and 1977.

c) Long-term debt —

The Trust Deed of the Company requires the use of a sinking fund or the pledge of additional unmortgaged property for each of the series as follows:

- (i) Series F, G and H, First Mortgage and series B and D, General Mortgage:
Annual payments of 1½ % of the nominal value issued.
- (ii) Series I, First Mortgage:
Commencing in 1976, annual payments of 1½ % of the nominal value issued.
- (iii) Series J, M and N, First Mortgage:
Annual payments of 1% or additional mortgage of 1½ % of the nominal value issued. The Company's policy is to use the latter alternative.
- (iv) Series L, First Mortgage:
Up to 1975, annual payments of 1% or additional mortgage of 1½ % of the nominal value issued. The Company's policy is to use the latter alternative. Commencing in 1976, annual payments of 2% of the nominal value issued, less the nominal

value paid prior to maturity at the option of the bondholders on April 15, 1975.

- (v) Series C, General Mortgage:
Annual payments of 1% of the nominal value issued.

Sinking fund payments and long-term debt retirements for the next five years will be as follows: \$138,500 in 1973, \$327,000 in 1974, \$330,000 in 1975, \$1,300,000 in 1976 and \$2,940,000 in 1977.

Bonds of all series are secured equally and rateably under a fixed and specific mortgage, pledge, charge, cession and transfer of/and on all immovable property, all buildings and equipment, telephone lines and apparatus, all rights-of-way and similar rights now owned and a floating charge on all other assets. The security provided for the General Mortgage Bonds is similar but subordinated to that provided for the First Mortgage Bonds.

4. Short-term notes

In common with most public utilities, the Company is required to obtain new capital from time to time by way of issues of bonds or capital stock in order to finance its plant expansion program and meet requirements for debt retirement. To permit the Company to time such issues of new capital most advantageously, the Company has a substantial line of credit from its bankers and also may sell short-term notes to provide funds on a temporary basis. In the normal course, however, such short-term credit is replaced by long-term financing. For this reason, the Company believes bank loans, short-term notes, and currently maturing long-term debt should not be classified as current liabilities.

5. Construction program

The cost of the Company's program for improvements and construction of new plant and facilities in 1973, as now

planned, is estimated to exceed \$20,000,000 including cost of re-used material and equipment.

6. Deferred charges

These charges represent purchases of material and salaries which will be distributed principally to the telephone plant in the next year.

7. Traffic and commercial expenses

Traffic expenses represent mainly costs incurred in handling telephone calls (principally operators' wages) and commercial expenses represent marketing expenses, advertising, cost of directories and customer services.

8. Miscellaneous income

The Company follows the policy of allocating to the telephone plant the cost of funds used during construction. This policy, using a rate of 8%, resulted in capitalizing \$166,933 in 1972 (\$176,116 in 1971) and crediting miscellaneous income.

9. Pension plans

The Company maintains funded pension plans for the benefit of all employees. The policy is to fund pension costs as incurred. The total pension cost for 1972 and 1971 was \$1,081,200 and \$486,400 respectively, which includes amortization of past service cost of \$114,000 for each year and an additional amount of \$646,000 for this year, representing the current actuarial deficit based on an actuarial study conducted as of December 31, 1971. Based on this report, the estimated unfunded liability for past service cost at December 31, 1972 would be \$1,403,400. Such past service cost, together with interest thereon, is being amortized over a period of 18 years.

10. Deferred income taxes

Deferred income taxes and the provision for deferred income taxes result from the difference between deprecia-

tion charged in the accounts and the capital cost allowance claimed for tax purposes, and the deduction for tax purposes of the allowance for funds used during construction and other capitalized expenditures.

11. Extraordinary item

The extraordinary item for 1972 amounts to \$673,878 before deduction of related income taxes of \$327,067. It results from non-recurring readjustments of the division of joint revenues related to the final approval of the new connecting contract with Bell Canada and various agreements which were subordinated to this approval. The extraordinary item of \$251,156 in 1971 resulted from an exchange profit realized on the repayments of loans in U.S. funds.

12. Earnings per common share

Earnings per common share were calculated using the weighted quarterly average number of common shares outstanding.

To the Shareholders of Québec-Téléphone:

We have examined the consolidated balance sheet and consolidated statement of capitalization of Québec-Téléphone and subsidiary as of December 31, 1972, and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Québec-Téléphone and subsidiary as of December 31, 1972, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

SAMSON, BÉLAIR, CÔTÉ,
LACROIX ET ASSOCIÉS
Chartered Accountants

January 28, 1973

Ten years of progress

(Thousands of dollars)

	1972	1971	1970
Selected income items			
Operating revenues	\$ 37,484	\$ 30,954	\$ 28,363
Operating expenses	24,001	19,277	17,029
Operating expenses (excluding depreciation and general taxes)	15,245	11,679	10,491
Depreciation of telephone plant	7,422	6,541	5,573
General taxes	1,334	1,057	965
Interest charges	4,888	4,680	4,639
Income taxes	4,385	3,723	3,718
Net income	4,531 ⁽⁴⁾	3,649 ⁽⁴⁾	3,199
Dividends paid on preferred shares	642	747	758
Net income applicable to common shares	3,889 ⁽⁴⁾	2,902 ⁽⁴⁾	2,441
Dividends paid on common shares	1,967	1,593	1,262
Reinvested net income	1,922 ⁽⁴⁾	1,309 ⁽⁴⁾	1,179
Selected balance sheet items			
Telephone plant, at cost	\$ 161,106	\$ 147,756	\$ 135,708
Accumulated depreciation	30,786	26,531	22,539
Capitalization (including short-term notes)	111,148	106,435	99,535
Common share equity	31,292	25,667	20,679
Preferred shares	10,865	14,249	14,385
Long-term debt	52,891	44,719	38,371
Subordinated notes payable to affiliated companies	8,000	10,000	15,000
Demand notes payable to banks and others	8,100	11,800	11,100
Telephone service facts			
Number of telephones ⁽²⁾	176,897	163,226	152,700
Per cent dial	97.9%	97.7%	96.7%
Per cent D.D.D.	94.7%	94.2%	80.9%
Toll messages	15,885,698	13,654,451	12,421,598
Other statistics			
Number of employees ⁽²⁾	1,758	1,648	1,604
Salaries and benefits	\$ 14,264	\$ 11,722	\$ 10,239
Construction and other plant additions	\$ 16,728	\$ 14,731	\$ 12,961
Average number of common shares ⁽³⁾	2,141,973	1,947,700	1,741,067
Ratios and percentages			
Earnings per common share	\$ 1.82 ⁽⁴⁾	\$ 1.49 ⁽⁴⁾	\$ 1.40
Declared dividends per common share	\$ 0.91½	\$ 0.81¼	\$ 0.72½
Per cent net income applicable to common shares paid in dividends	50.6% ⁽⁴⁾	54.9% ⁽⁴⁾	51.7%
Plant investment per telephone ⁽²⁾	\$ 987.01	\$ 905.22	\$ 888.72
Common share equity per common share ⁽²⁾	\$ 13.87	\$ 12.63	\$ 11.88
Interest in per cent on long-term debt and short-term notes	7.2%	7.1%	7.4%
Per cent return on average invested capital ⁽¹⁾	8.7%	8.2%	8.1%

⁽¹⁾ Yearly average

⁽²⁾ Year-end

⁽³⁾ Allowing for Split in Common Shares, 2 for 1 in 1964

⁽⁴⁾ Excluding extraordinary item

1969	1968	1967	1966	1965	1964	1963
\$ 25,892	\$ 22,632	\$ 20,500	\$ 17,569	\$ 16,165	\$ 14,789	\$ 13,425
15,470	13,737	12,765	10,989	9,740	8,812	7,828
9,737	8,687	8,458	7,432	6,585	6,045	5,285
4,817	4,175	3,557	3,004	2,706	2,413	2,182
916	875	750	553	449	354	361
4,161	3,513	2,648	2,144	1,700	1,590	1,495
3,492	3,014	2,721	2,350	2,498	2,323	2,175
2,983	2,579	2,599	2,232	2,285	2,181	2,071
757	507	515	522	500	422	431
2,226	2,072	2,084	1,710	1,785	1,759	1,640
1,219	1,219	1,219	1,086	1,031	1,219	859
1,007	853	865	624	754	540	781
\$ 125,516	\$ 114,373	\$ 100,721	\$ 86,614	\$ 72,555	\$ 63,620	\$ 56,393
19,558	16,970	15,556	13,894	11,601	9,842	8,509
95,393	88,781	76,781	67,841	58,566	49,637	46,652
19,500	18,608	17,755	17,193	12,658	11,288	10,677
14,666	10,479	10,628	10,791	10,933	7,876	8,072
31,227	31,694	32,198	31,714	31,925	27,473	27,903
15,000	10,000	—	—	—	—	—
15,000	18,000	16,200	8,143	3,050	3,000	—
144,235	136,070	126,426	119,278	108,791	99,168	90,825
94.0%	91.0%	82.1%	73.1%	71.3%	66.7%	64.9%
64.6%	44.8%	37.5%	—	—	—	—
11,904,488	11,457,424	11,367,198	10,312,595	9,587,148	8,776,462	7,727,966
1,575	1,546	1,587	1,699	1,580	1,598	1,461
\$ 9,983	\$ 9,053	\$ 8,036	\$ 6,954	\$ 6,191	\$ 5,573	\$ 4,925
\$ 13,498	\$ 16,540	\$ 16,001	\$ 14,651	\$ 9,882	\$ 8,307	\$ 8,415
1,741,067	1,741,067	1,741,034	1,519,792	1,475,310	1,433,736	1,431,488
\$ 1.28	\$ 1.19	\$ 1.20	\$ 1.13	\$ 1.21	\$ 1.23	\$ 1.15
\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.60
54.8%	58.8%	58.5%	63.5%	57.8%	69.3%	52.4%
\$ 870.22	\$ 840.54	\$ 796.68	\$ 726.15	\$ 666.92	\$ 641.54	\$ 620.89
\$ 11.20	\$ 10.69	\$ 10.20	\$ 9.88	\$ 8.51	\$ 7.87	\$ 7.45
7.0%	6.3%	5.9%	5.7%	5.5%	5.6%	5.6%
7.7%	7.3%	7.3%	7.1%	7.5%	8.0%	8.0%



Québec-Téléphone's Microwave Network



Serving People

Serving subscribers in a variety of walks of life is our principal task. Be they miners on the North Shore, tourists charmed by the beauty of the Gaspé, farmers in the Beauce, or inhabitants of suburban Quebec City, our clients all want the same thing: the best service at the lowest possible price.

Moreover, they require services that are adapted to their specific needs. To meet these needs Québec-Téléphone offers services such as those which are especially adapted to the needs of forestry workers.

While increasing the number of telephones in service, particular efforts have been directed towards diversification, in order to provide our subscribers with better and more accessible services.

Adhering to our permanent objective of offering constantly improved services, we intend to continue and accentuate our efforts in this sense in future years.

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